

G20 INTERNATIONAL TAX SYMPOSIUM ISTANBUL, 6-8 MAY 2015



Republic of Turkey
Ministry of Finance

G20 INTERNATIONAL TAX SYMPOSIUM

Turkish Ministry of Finance hosted “G20 International Tax Symposium” in Istanbul on 6-8 May 2015, bringing together representatives of governments, international organizations, businesses, non-governmental organizations, and academia. Nearly 300 participants from 60 countries attended the Symposium. The Symposium provided for a unique platform for international cooperation and coordination on tax matters, and ensured that low-income countries also benefit from the G20’s work on tax and other related agenda.

The Symposium was inaugurated by the Turkish Minister of Finance, Mr Mehmet ŞİMŞEK and the Chair of OECD’s Committee of Fiscal Affairs, Mr Masatsugu ASAKAWA.

Discussions at the Symposium focused on the Base Erosion and Profit Shifting (BEPS) Project, transparency and Automatic Exchange of Information (AEOI) and ensuring capacity building by ensuring low income and developing countries participation in the international tax agenda.

All these discussions at the Symposium demonstrated that there remains a widespread support for the G20/OECD tax agenda. In the meantime, comments from various stakeholders directed at BEPS Action Plan provided a wider

perspective on the global tax agenda. In this respect, the Symposium offered an opportunity for discussions on finding inclusive, global solutions to BEPS.

During the Symposium it was emphasized that it is essential for all countries to make a contribution to policy making process in order to deliver truly global solutions to the current challenges in the international tax system. Therefore, it is necessary to incorporate low income and developing countries’ perspectives. For this reason, providing technical support and capacity building efforts are crucial for the implementation of BEPS measures and the AEOI. In addition to these, it was dwelled on importance of monitoring the implementation of BEPS actions and AEOI.

Details of subjects of the Symposium are located in the enclosed report.

As the presidency of G20, we thank notably OECD and all participants for their contributions.



Mehmet Şimşek
Minister
MINISTRY OF FINANCE

Message from Mr Mehmet Şimşek, Minister of Finance

It is an honor to host the G20 International Tax Symposium in Istanbul during Turkey's G20 presidency. I would like to thank OECD and all other participants for their invaluable contributions.

The OECD/G20 Base Erosion and Profit Shifting (BEPS) Project, which aims at taxing profits where economic activity and value creation occur, is probably the most significant global effort to modernize the international tax system in recent decades. Thanks to the good work by OECD, G20 countries and other participants, we have now laid the foundations of a modern international tax framework. It provides us with an opportunity to compensate global income tax revenue losses arising from a variety of causes such as aggressive tax planning, lack of tax transparency and other harmful tax practices.

While adopting the BEPS Action Plan is a major step towards ensuring a fairer global tax system and stronger public finances around the globe, we must recognize that the BEPS package will only deliver the desired results if there is widespread and consistent implementation of the deliverables. Hence, ensuring an effective implementation and monitoring compliance by each G20/OECD member post-2015 remains critical.

Going forward, the challenge is ensuring a consistent and coherent implementation of the rules. Needless to say that Turkey will continue to seek stronger international cooperation in the G20 to monitor the implementation of the BEPS Project. Once again, I would like to thank all the participants for their contributions towards creating a more efficient and fairer global tax system.

Mehmet Şimşek
Minister of Finance



İsa Coşkun
Acting Undersecretary
MINISTRY OF FINANCE

Foreword

It is with great pleasure that I introduce this summary of the discussion at the G20 international Tax Symposium held in Istanbul on 6-8 May 2015. The Symposium was a significant event for Turkey G20 presidency and provided a unique opportunity for international engagement on the G20 tax agenda.

At the Symposium, participants pointed out that BEPS Project and AEOI is a significant opportunity to make international tax rules more effective and more applicable and to ensure countries' working together in cooperation and coordination to carry out global tax reforms. During the Symposium, the key message delivered was to incorporate low income and developing countries' perspective into the process and support them in their capacity building efforts aimed at implementing BEPS measures and AEOI mechanism.

Participants warned about that if it is not focused on effective implementation and multilateral implementation instruments are not developed after 2015, all efforts will be lost. Furthermore, it was underlined the importance of establishing peer control mechanism and monitoring the results of works in the implementation phase of BEPS deliverables.

On this opportunity, I would like to thank the Minister of Finance, Mr Mehmet Şimşek, OECD, all moderators, speakers and participants for their supports for the event.

İsa Coşkun
Acting Undersecretary of Ministry of Finance

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G20 Tax Agenda: Shaping New International Tax Environment

Session 1

Overview

In the session, the focus was on sustainability and comprehensiveness of rules in development and implementation of measure for international taxation issues as well as the importance of cooperation. Importance of monitoring BEPS actions by countries after BEPS Project ends up was also underlined.

The Importance of BEPS Action Plan and AEOI

It is clear that matter of base erosion and profit shifting is a global matter. Changes in information and communication technology create a change in economic conditions and forms of conducting business significantly. Therefore, there is a necessity to bring effective rules that can keep pace with these changing economic conditions and prevent BEPS situations such as low taxation, non-taxation and double taxation.

BEPS Project and Automatic Exchange of Information mechanism arise as a result of global conjuncture. The 2008 crisis has demonstrated that economic growth should be sustainable and balanced.

Besides, the crisis has revealed necessity of working in cooperation in development and implementation of measures intended for international taxation issues and importance of transparency and information exchange.

Tax issues are at the top of G20 agenda. OECD and G20 have been cooperating in addressing tax matters for six years. BEPS Project aims to create a set of international tax rules based on consensus, besides ensuring taxation is in line with the location of economic activities and value creation under the tax rules. This will provide increasing certainty and predictability to taxpayers and preserve tax bases.

G20 leaders confirmed the BEPS Action Plan delivered by OECD in September 2013. In accordance with the two-year plan, the first seven action deliverables set was submitted to be confirmed by G20 Ministers of Finance in September 2014 in Cairns and it was confirmed by G20 leaders in Brisbane summit. In September 2015, these actions' deliverables will be finalized with the completion of all actions. All the BEPS package will be submitted to G20 Ministers of Finance's meeting on 8 October 2015 in Lima and in November, it will be submitted to G20 Leaders' Summit in Antalya.

BEPS Project is aimed at making rules sustainable in a balanced approach. This is the reason for Action 14 of the BEPS Action Plan. There is a need of some rules in today's world in which more transparency exists. In addition, reporting transparently on a Country-by-Country basis is a significant part of BEPS Project.

Tax evasion and tax avoidance will decline by increasing transparency. Currently, there are 96 countries which make a commitment to introduce automatic exchange of information as of 2017 and 2018.

Participants stated that secrecy of bank transactions is in the process of disappearing and they emphasized that although there are lots of implementation work to actualise this, it is being strongly supported with political commitments.



“According to IMF and World Bank data, developing countries are affected by BEPS more than developed countries and therefore, all solutions should incorporate these countries.”

PASCAL SAINT-AMANS
Director
OECD-CTPA

World Bank Perspective

Main targets of tax work carried out by World Bank are to help countries create sustainable local source mobilization mechanism through tax system and promote strong investment environment.

World Bank is also affected by G20 agenda, especially by the agenda of BEPS and AEOI. After the financial crisis and in pursuit of BEPS Project and putting into operation of AEOI, World Bank has tried to help developing countries on how these

are put into process with capacity building support. For example, countries may want to use new information sources, but they do not know how to use them effectively. For this reason, the World Bank has supported pilot schemes regarding AEoI with the Global Forum.

Furthermore, BEPS and AEoI Projects have led to strong cooperation between World Bank, OECD, IMF and UN in many respects. This issue was discussed in more detail in Session 8.

Business Perspective

Some MNCs have hundreds of business in the world, and sometimes this number can even rise to thousands. They can use different country citizens as labour force. Most of the activities of MNCs are established outside of the country where their parent company is established and some of their major activities take place in several countries. Although MNCs seem as if managed in a complex way as a result of these features, they actually

can be executed as a single entity thanks to information and digital technologies. Some MNCs have hundreds of business in the world, and sometimes this number can even rise to thousands. They can use different country citizens as labour force. Most of the activities of MNCs are established outside of the country where their parent company is established and some of their major activities take place in several countries. Although MNCs seem as if managed in a complex way as a result of these features, they actually can be executed as a single entity thanks to information and digital technologies.

MNCs have benefited from opportunities of information and digital technologies approximately for 20 years. Moreover, developments in technology not only changed management form of companies but also created new business types. In other words, tax environment has undergone a significant change in general.

“After BEPS, we see an international tax system with a holistic approach, addressing base erosion as is enhancing the investment climate so as to foster growth.”

RICHARD STERN
Lead Tax Officer
WORLD BANK GROUP



In the session, it was underlined that although efforts of G20 and OECD are appreciated by the business world in this changing environment, they have some concerns because of the costs stemmed from complexity and difficulty of compliance requirements. They expressed concerns that they would be exposed to more double taxation and audit due to BEPS Action Plan. If robust principles about BEPS Project are not introduced, MNCs can be affected negatively concerning their cross border investments. In addition, MNCs may prefer to decrease their cross border investments in certain countries instead of contacting with each tax administrations separately. Therefore, MNCs claim that negative effect on FDI is a possible outcome in the future.

Additionally, participants pointed out that reputational risk has become significant for MNCs as taxation issue is closely followed by the public.

Perspective of Developing Countries and Civil Society

Helping low income and developing countries on domestic resource mobilisation is very significant for development. In this context, the international community should make an effort to revamp tax systems.

It should be attributed special importance to comprehensiveness.

According to data provided by OECD and World Bank, developing countries are affected by base erosion and profit shifting further with respect to developed countries. Therefore, these countries should be taken into account in all solution offers as they are more sensitive to BEPS.

Investments are often a major focus for developing countries. However, ability of MNCs to shift their profit and base undermines SMEs at national level, even if they are large. SMEs do not have same competition conditions and opportunity with MNCs about profit shifting.



Addressing BEPS in The Digital(ised) Economy

Session 2

Overview

In the session, digital economy which takes an important place in global economy and BEPS Project was discussed.

It was noted that digital economy should be considered together with all commercial areas in a holistic approach. Furthermore, it is highlighted that taxation of the digital economy is affected by the works of other action items of BEPS Action Plan considerably. Besides, participants emphasized that it will create injustice and inequality for all sectors if global standards do not effectively address the issues raised by the digital economy on this.

Digital Economy Should Be Considered Together With All Commercial Areas

Digital economy has led to emergence of new business models by changing manners of works significantly. Accordingly, tax rules have to be updated to keep pace with changing economic conditions. It was stated that while addressing BEPS, it should be placed special importance on digital economy and digital economy's being first action among 15 action items within the scope of BEPS Project is not coincidence.

Briefly, in this session, speaker underlined that digital economy should be considered together with all commercial areas in a holistic approach.

Difficulties in Taxation of Digital Economy

Usage of digital economy which is open to change and improvement is increasing day by day. The digital economy cannot be ring-fenced from the economy in general, and therefore taxation targeting the digital economy only is not possible.

Digital economy has unique characteristic and different business models such as decreasing storage

costs, easing flow of information and enabling to enter new markets.

Participants noted that issues such as mobility of intangibles, the contribution of users and especially mobility of data usage and commercial structure make difficulties in understanding of digital economy as taxation.

Network effects which are important in digital economy can favour monopolies. In addition, the effect of participatory networks on business models which are part of global value chain and affect value of main services provider can cause widespread challenges in terms of international taxation.

The most significant challenges of digital economy are related to nexus and role of data in modern economy. Therefore, there is a need of study on notion of significant economic presence. Previously, for conducting an economic activity in a certain territory, it often required establishing of a subsidiary or physical presence in the market. On the other hand, in digital economy, businesses can be operated as a powerful commercial entity with a good business volume without physical presence in a country. Although digital economy leads to satisfactory economic outcomes, determining the appropriate taxation of such models can pose challenges.

In the digital economy, it can also be difficult to link the nexus of the

value creating activity and the location of the profit. That is to say, if a country has a digital tax, it can be pretty difficult to determine the nexus for the purposes of establishing a taxable presence. All revenues may not necessarily flow into the country where a nexus to the digital business is established, while other parts of the company group can take a share from this profit. Addressing the question of profit allocation in the digital economy can also raise questions. The work on the taxation of the digital economy is therefore developing options which will be considered by the participating countries on how these issues may be addressed, if necessary.



“The Digital economy being the first action among the fifteen Action Items within the context of the BEPS Project is not a coincidence.”

ZAYDA MANATTA

Advisor

MINISTRY OF FINANCE, BRAZIL

As in other issues, coordination should be ensured and work should continue to assess the tax issues relating to the digital economy. Academic studies are not sufficient, consequently there should be focus on what happens in practice. Thus, it is quite significant to carry out international work to facilitate coordination. Unless coordination among jurisdictions is ensured, double non-taxation can arise.

If states do not achieve to tax on digital economy, this situation will cause competitive distortions and in parallel with this, it will create negative results in all sectors in terms of equality and justice.

Relevance of Digital Economy with other BEPS Action Items

As digital economy is highly related with other BEPS issues, it is important to finalise these actions and ensure that the tax issues exacerbated by the digital economy are addressed.

Participants emphasized that digital economy should be addressed through BEPS Actions including CFC rules (action 3), permanent establishment (action 7) and transfer pricing rules (action 8-10) due to interwoven structure of digital economy with other economies.

Participants stated that proposals to be brought for BEPS issues should

compose of a range of measures and PE rules should be key position in this matter. CFC rules should be applied effectively to profits acquired as a result of digital delivery of goods and services from a distance by strengthening them.



“Unless tax authorities take collective measures to prevent base erosion arising from the increasingly digitalisation of the economy, new disagreements may arise.”

AHMET KURT

Head of Group

TURKISH REVENUE ADMINISTRATION, TURKEY



Contributing to Financial Stability: The BEPS Work on Interest Deductibility and Hybrid Mismatch Arrangements

Session 3

Overview

This section focused on how the BEPS Project work on hybrid mismatch arrangements and interest and other financial payments deductions can contribute to the financial stability.

The session highlighted that the use of hybrid mismatch arrangements and interest deductions as a means of base erosion are possible sources of financial instability. Increasing coordination among countries and aligning national legislations with the international taxation are critical points in addition to the work under the BEPS Project.

Action 2: Neutralise the Effects of Hybrid Mismatch Arrangements

Action Item 2 of BEPS Project addresses hybrid mismatch arrangements. The work related to Action Item 2 is carried out by the OECD with the cooperation of not only G20 and OECD countries but also non-member countries. Significant progress have been reached in this area and in particular with regard to the interpretation and implementation

of hybrid mismatch arrangements by different countries. The most important achieved result is that coordination in the implementation and application of the hybrid mismatch rules among countries has been developed.

An hybrid mismatch arrangement is an arrangement that exploits the different tax treatment in two jurisdictions to produce a mismatch in tax outcomes.

Due to these differences in tax treatment, mismatches arise. Mismatch is either two deductions for the same payment or a deductible payment that is not included in the income by the recipient. This may cause double non-taxation, including long-term deferrals.

What is the Goal of Action 2?

Action Item 2 sets forth recommendations for domestic law changes and changes to OECD Model Convention to deal with hybrids. OECD tries to establish clear, automatic and comprehensive rules that neutralise the tax mismatch without disturbing the commercial or regulatory consequences. That is expected to prevent double taxation and non-double taxation in the countries which implement hybrid mismatch rules.

Actions to Be Taken

Participants emphasized the importance of developing coordination and alignment of tax treatment among countries about hybrid mismatch arrangements. Hybrid mismatches can occur either due to different classifications of the instrument. For example, it may be considered by one jurisdiction as a loan, and by the other, as an equity investment. Another type of hybrid mismatch concerns the classification of the entity itself, for example whether it is considered to be a separate legal entity or a

partnership. Under such conditions, for example a single expense can be deducted twice and the tax base can be reduced.

Action Item 4: Interest Deductions and Other Financial Payments

In most countries, debt and equity are taxed differently. Generally, interest expenses related to debts are deductible while the deduction does not apply to equity investments. For this reason, interest deductions are often used in tax planning strategies by MNCs to reduce the tax base. MNCs can also shift their profits to countries with the lowest tax rate using interest



“We should also look at the issue from MNCs’ perspective, which should be integrated into the system.”

SOL PICCIOTTO

Emeritus Professor
BEPS MONITORING GROUP

payments. Action 4 of the BEPS Project has been developed with the aim to prevent base erosion by using interest deductions and other financial payments.

Tax administrations do not have developed a robust policy to limit interest deductions yet. For this reason, Action 4 aims to develop recommendations regarding best practices in the design of rules to prevent base erosion through the use of interest expense or other financial payments that are economically equivalent to interest. As a result, OECD has developed some approaches which are expected to limit excessive interest deductions.

Approaches

There are basically three approaches being considered under the works of Action 4 Item for interest deductions. The first approach is a group-wide test and the second is a fixed ratio test. Alternatively, a combined approach would allow lower risk companies to apply a simple fixed ratio test, while more highly geared companies could claim higher deductions by applying a group-wide test. These approaches could be supplemented by special rules for companies belonging to specific sectors, such as banks and insurance companies, funds and infrastructure.

Actions to Be Taken

As well as in the hybrid mismatch arrangement area, coordination and cooperation among countries are significant elements to take into account in tackling excessive interest deductions.

Participants pointed out that there should be a unitary approach to interest deductions. Furthermore, they underlined the need of a well-balanced tax system in view of more predictability for a favourable business environment. Another issue emphasised by participants related to the fact that interest deduction corridor of possible ratios (lower and upper limits) should be clear in each country tax system. In addition to these, the Symposium also recommended to strengthen the implementation of Controlled Foreign Corporation (CFC) rules.

It was also highlighted that interest deduction issues should be addressed not only with regard to the tax revenue aspect but also the business environment side. In particular, the focus should be on MNCs instead of SMEs. As MNCs operate in lots of countries and they have also offshore financial systems, they have complex structures which can be used as a means of tax avoidance.

“Today, Islamic finance comes to the fore as a contributor to financial stability as it is based on equity financing, works on risk-sharing basis and creates a direct link between financial transactions and real sector activities.”

MUSTAFA CEMİL KARA
Head of Department
MINISTRY OF FINANCE, TURKEY



Islamic Finance As a Means of Financial Stability

The panellists focused on the relevance of the Islamic finance in contributing to the financial stability. After the global financial crisis, one of the most significant subjects for the countries' worldwide development and growth is to ensure the financial stability. One of the issues arose during the financial crisis highlights the importance of reviewing relationships between finance and real economy. For this reason, at the Symposium, it was stressed that this issue should be addressed comprehensively.

Islamic finance comes to the fore as a contributor to financial stability as it is based on equity financing, works on risk-sharing basis and creates a direct link between financial transactions and real sector activities. It also creates opportunities, especially for

developing countries, in terms of social and economic development. Besides, Islamic finance products meet extensively the financial needs of SMEs.

However, there is still a need for a clear framework of tax regulations with regard to the Islamic finance. In this respect, governments should level the playing field in the tax and legislative framework of the Islamic finance. In order to be able to use the Islamic finance as an actor for the financial stability, there is a need of standardization of the Islamic finance. For this reason, there is a need of legal and financial arrangements to be constituted both at international and national level. Furthermore, it was stressed that the Islamic finance should be included into the global tax agenda beside the international tax work.



Aligning Tax Rules to the Reality of Global Value Chains: The BEPS Work on Transfer Pricing and its Relevance for Developing Countries

Session 4

Overview

In this session, topics related to transfer pricing issues such as risk allocation, intangibles and re-characterization of transactions, as well as the negative effects of these topics on developing countries, were discussed.

It was pointed out that transfer pricing outcomes should be in line with value creation.

Challenges Concerning Transfer Pricing and Global Value Chains

Transfer pricing outcomes may represent a significant issue for both revenue administrations and the business world. Especially when MNCs are involved, the increase of capital and labour mobility increases the importance of transfer pricing. To be able to prevent base erosion and profit shifting and situation of

double non-taxation, transfer prices should be correctly determined.

In this session, participants touched upon some challenges regarding transfer pricing outcomes. The most significant issue is that operational transactions and profits should be analysed within the framework of value creation because transactions are contract-based and low functional legal entities pose a problem due to their transactions.

Another challenge due mainly to the unsatisfactory risk allocation level and problems connected with tax administrations, especially for developing countries, is the mispricing and incorrect evaluation of profit rates.

Moreover, commercial activities are considerably reduced because of limited access to information by tax administrations. Therefore, how these transactions are integrated into global value chains should be discussed. With regard to some specific and complex transactions, transfer pricing issues should be considered and further work should be carried out.

Addressing the Issues

To be able to address all difficulties, a sufficient level information on transfer pricing should be acquired and Action 13 will ensure it through a three-tiered approach consisting of a master file, a local file and a Country-by-Country Report. First of all, it is necessary to access information about commercial transactions. Then, global operations should be considered in a qualitative way and they should be incorporated into a global value chain. Finally, countries should focus on data included in the reports received from other countries. For instance, the global allocation of the income, the taxes paid, and certain indicators of the location of economic activity among tax jurisdictions in which the group



“With regard to transfer pricing issues, guidance is necessary for developing countries to develop their capacity to deal with transfer pricing issues”

JAMES KARANJA

Principal Revenue Officer
KENYA REVENUE AUTHORITY, KENYA

operates. This approach will provide tax administrations with relevant and reliable information.

In order to prevent base erosion and profit shifting, it is necessary to look at the pricing of the real transaction. For this purpose, compatibility of contracts with the tax system should be evaluated by looking both to the practice and to the contracts that have been signed.

With regard to definition and evaluation of intangibles, in particular in developing countries, it was stressed the importance to look at the real transactions and related

contracts by taking into account the important functions performed.

It is necessary to understand how the value is created to determine how profit distribution is done among groups as well as how functional and risk analysis is made. Meanwhile, gathering information and finding comparables are among the most important topics in developing countries.

Developing Countries Perspective

Developing countries, such as African countries, have many difficulties in the transfer pricing area. For these countries, issues are complex and guidance is needed to wade through hundreds of documents and develop their capacity to deal with transfer pricing issues. Sources are insufficient and there are difficulties in using them effectively. Moreover, in these countries tax avoidance rates can be very high and tax administrations have a difficulty in accessing necessary information.

Guidance as well as a complete functional analysis are needed in these countries. Lack of access to relevant information can create an information asymmetry. Namely, real risks cannot be evaluated sufficiently and taxpayer tax return is accepted as it is.

Other problems relate to failure in accessing comparable data which are the basis for the implementation

of transfer pricing rules. For instance, as prices are taken from the old commodity market, it is not necessarily reliable or sufficient to consider that price for current transfer pricing purposes.

Business Perspective

Business representatives stated that certain issues are going to be treated by the BEPS Action Plan but whether this treatment causes unwanted side-effect is not yet clear. Business representatives remarked that they tried to determine which part of the business would bear costs



“OECD should introduce a clear analytical framework describing when re-characterisation and non-recognition of transactions are applicable by the tax authorities.”

RAMAZAN BİÇER
Transfer Pricing Senior Manager
PWC TURKEY

in a situation of risk allocation, and they emphasized that comparability analysis is not accessible in commercial data base and risk allocation will have to be questioned by tax authorities unless detailed risk analysis is made. As a solution, they suggested that new transfer pricing guidance should include a greater emphasis on undertaking appropriate risk analysis.

Business representatives stated that the OECD should introduce a clear analytical framework describing when re-characterisation and non-recognition of transactions are applicable by the tax authorities.

In this session, business representatives also stated that they observed constrictions in the global value chain and that they do not deserve a reduction of profit. Therefore, they suggested equal distribution of profit between R&D, production and sales.



The Economists' Perspective on BEPS: Data, Economic Analyses and Spillover Effects

Session 5

Overview

In this session, BEPS is addressed under an economist perspective. Panelists touched on data limitations, different approaches to data collection, economic and fiscal analysis of effect of BEPS behaviour and spill over effect between countries with potential indicators that enable analysis to be made. Panelists emphasized the situation in particular in low income countries and developing countries.

Challenges in the Economic Analysis

This session stressed the importance of developing recommendations for monitoring and evaluating the economic effects of BEPS and BEPS countermeasures.

Under Action Item 11, relevant studies are conducted to measure the effects of BEPS. Participants stated that currently, the activity of measuring the effects of BEPS seems a difficult process with lots of obstacles. The main difficulties are the access to data and limited available information. An economic analysis should intend to achieve significant macroeconomic findings

and comprehensive predictions should be made for all economic fields. To be able to make predictions, accessible data are needed as well as a selection of correct constraints. Ultimately, these two constraints determine the quality of predictions. In this way, a reliable prediction could be presented. Since current data are quite difficult to access, besides the need of improving access to existing data, there is also a need of collecting new data and building indicators to be able to make a reliable prediction about the revenue losses attributed to BEPS.



“Fundamentally, we are assigned an impossible task because we are working on measuring effects of BEPS behaviours. I hope we will fulfil our duty in despite of all data limitations.”

DAVID BRADBURY
Head of Division
OECD CTPA

At this point, seven indicators are being considered for measuring the economic effect and the scale of BEPS. These indicators fundamentally show the disconnection between financial and real economic activities as well as profit rates and tax differentials, intangible assets and profit shifting to another place through intangibles and interest payments.

For the economic analysis on BEPS, the availability of micro data or firm-level data, together with macro aggregated data, has become important. Data are important for the effect on national accounts, balance sheets and foreign direct investments.

As mentioned before, available tax information are limited. Available data are generally at the disposal of institutions which govern the access to the information. Most of the time, data are requested from relevant governments or *via* parliamentary enquiries but these information are

received after a long time, when they are received at all. Therefore, the collection of data seems as one of the big problems in measuring BEPS. However, it should be noted that progress has been made in terms of access to data. In the past, access to data was possible in some Scandinavian countries. Nevertheless, this is still not sufficient for the purpose of the economic analysis of BEPS and BEPS countermeasures and non-OECD countries should open their systems to data sharing.

Therefore, aggregation of micro data into macro data, which is one of the current problems according to economists, poses a problem for BEPS behaviours. Associating micro data to BEPS behaviours after their aggregation and measuring the effect on the broad economy is a quite difficult task. Furthermore, data do not refer exclusively to tax aspects and there is a need of additional data base.

Spill-Over Effect and Developing Countries

One of the most significant goal of the BEPS Project is to reveal its importance. Are these issues really significant for developing countries? The answer is yes, these issues are very important for them and actually, they could be considered more important for them compared to developed countries. It seems that, after having examined data, low income and low-to-mid income countries rely on corporate income tax revenues relatively more than developed countries. When low income countries have been compared to high income countries, some main differences drew attention. For instance, if these countries do not tax corporations, it is unclear where they get the financial resources. By international agreements, tariffs have been cancelled in most of these countries. Value added tax rates have been reduced in a great number of countries and income taxes are collected below its potential in developing countries. Therefore, as said before base erosion with regard to corporation tax base affects these countries more deeply.

Another topic faced by economists is the interaction among countries. How the state of affairs in a country affects another country can be explained with the notion of spill-over effect. It has been revealed that spill-over effects are statistically significant over the years. According

to this, spill-over effects can have a bigger effect in developing countries compared to developed countries. The issue could be considered in terms of tax competition. Competition has serious results especially in terms of investments. For instance, when a real investment decision is taken in the United States, a reduction of tax rate in a small island country may not cause the shifting of the investment from the United States to the low tax country. However, in case of profit



“When we look at data, we see that the BEPS issue is more significant for developing countries and therefore, one of the most significant goals of the BEPS Project is to reveal its importance.”

MICHAEL KEEN

Deputy Director
IMF FISCAL AFFAIRS DEPARTMENT

shifting, holding money in the low tax country could be more logical. Under this situation, a huge amount of revenue losses, whose estimation is difficult, may arise. In this session, participants emphasized that problems should be addressed holistically. Indeed, if problems are addressed separately, with the result that some problems are solved while others are not, this will not bring any benefit.

Does BEPS Create Problems for Countries?

One of the main concerns of developing countries relates to the exchange of information process. Through the participation of all parties to the exchange of information process, revenue income will increase and taxation of economic activities in the place where the value is created will be ensured.

Countries have shown concerns about their sovereignty but giving the access to information is important for determining the scale of tax evasion and tax avoidance. Furthermore, exchange of information is significant for measuring revenue income received after the implementation of measures aimed to address those behaviours. The BEPS Project presents clear recommendations to address tax avoidance and guidances are constantly updated. Exchange of information is a valuable tool for establishing where

the problems are and mobilising resources to solve those problems. All stakeholders should be involved into the Project through a public and constant consultation process.



Implementing the International Consensus on BEPS with Practical and Effective Rules: Domestic Laws, Multilateral Instrument and Toolkits

Session 6

Overview

In this session, implementation of the BEPS Project's deliverables and importance of this phase were discussed.

For the success of the Project, it was stated that there should be a consistent, integrated and holistic approach and developing countries should be supported in understanding and implementing the BEPS measures. It was pointed out that if the release of the BEPS deliverables was not followed by an effective implementation and the development of a multilateral instruments all efforts made to reach consensus may be lost. In addition, participants stressed the significance of developing auditing mechanism for monitoring the results of implementation of BEPS measures.

Implementation Phase of BEPS Project

The first seven BEPS deliverables were released in September 2014. The BEPS Project will be finalized in September 2015. After September 2015, the measures developed under the Project should be put in place. In this session, it is stated that although achieving a successful implementation of the BEPS measures is not an easy task, it is important to implement treaty-related measures in a quick and

effective way through the multilateral instrument. For this reason, it is essential to act together with a consistent, integrated and holistic approach and by taking specific countries situations into account. This instrument is significant for using tax incentives and investments effectively, especially in developing countries. There are OECD principles about approaches to incentives and on this subject,

there are lots of challenges due to several reasons such as the relevancy of tax competition and the lack of power to reject tax incentive demands within some countries.

Consistent implementation examples such as in the area of hybrid mismatch arrangements and effective guidance are also other significant subjects in the implementation phase. Reviewing transfer pricing guidelines and developing toolkits for developing countries are topics that need to be addressed during the implementation phase. Even though establishing monitoring mechanism is difficult, the OECD aims to review all the measures delivered until 2020. In addition to this, monitoring the implementation performance of each country should be ensured by the development, among others, of peer review mechanisms.

Participants stated that all the work done under the BEPS Project will be lost if BEPS measures are not effectively implemented.

Developing Countries Perspective

Developing countries' BEPS concerns can differ in part from the



“With regard to the development of a multilateral instrument, participation of developing countries should be encouraged since it is crucial to establish a framework that allows them to express themselves.”

AKILESH RANJAN

Joint Secretary
MINISTRY OF FINANCE, INDIA

developed countries' ones. Besides the identified BEPS issues, developing countries highlighted specific issues related to indirect asset transfers, tax incentives and the lack of transfer pricing comparables.

Participants stated that, in the future, comprehensiveness should be the main subject and the multilateral instrument, which ensures harmonisation between countries, should be developed without violating any national sovereignty to be able to implement quickly and effectively the BEPS outcomes. The development of a multilateral instrument involves the establishment of a platform where developing countries views and contributions should be represented.

Business Perspective

As Einstein once said *“In theory, theory and practice are the same; in practice, they are not.”*, business representatives stressed that implementation of the BEPS measures is a distinct issue and the BEPS Project will be finalised only with its implementation. In addition, the business world highlighted the importance of working in coordination and moving with certainty, predictability and consistency while implementing BEPS measures. To provide these conditions, implementation should be carried out in the same way in all countries and definition and interpretation of some concepts such as permanent establishment and transfer pricing should be agreed. Participants think that unless the implementation of measures occurs in a coordinated way, uncertainty and disputes may increase.



“If next steps are not focused on effective implementation and on the development of a multilateral instrument, all efforts done to achieve consensus will be lost.”

GRACE PEREZ-NAVARRO

Deputy Director
OECD CTPA

Another relevant point is that countries and businesses have different interests and opinions should not prevent to achieve a consensus and both should face the challenges associated with the implementation by working together.



From Bank Secrecy to Automatic Exchange of Information: Key Issues Related to Implementation

Session 7

Overview

This section focused on bank privacy and the new global standard on automatic exchange of information as well as on issues related with the implementation of the new standard.

The session highlighted the consensus reached on the automatic exchange of information standard and the support provided by financial institutions along with countries which have made a commitment to the new standard. It was underlined that the most critical areas relate to the increasingly globalization of the system and the inclusion of developing countries into the process.

An Accelerating Process of Exchange of Information

At the beginning, the exchange of financial information matter was studied by the European Union. Then, studies were carried out within the scope of FATCA. Afterwards, the automatic exchange of information standard was established as the single global mechanism and finally the structural process of implementation to ensure financial transparency.

A significant success was obtained when G20 countries reached an agreement on exchange of information and global standards at the 2009 London meeting. Before there was a slow going process in this area at the international level, but then, with the support of the G20 Leaders, the process related to the implementation of the new global standard accelerated and many results have been obtained in the next five years. This issue concerns not only OECD countries but all countries. It can be clearly

stated that there is a consensus on the automatic exchange of information standard. So far, 96 countries have made a commitment to implement the global standard, with reporting to start in 2017.

In this session, participants emphasized that the inclusion of developing countries into the process is very important for the globalisation of the system. Moreover, they stated that workshops may be held in order to encourage a greater participation of countries since implementation is not an easy issue. At the same time, there is a need of working together with financial institutions. It is compulsory to work together for the sake of the financial community. A global standard can provide benefits to all countries, not just one. It should be ensured that the global standard remains a manageable structure and a single global standard.

How to Establish an Effective Functional System All Over the World?

It is important to develop a common reporting standard in the phase of reporting from country to country. For instance, there are EU directives about how automatic exchange of information is applied within the European Union since 2005. The challenge was how to set a similar functional system across the world?

For automatic exchange of information, a global functional solution is needed. In other words, there should be a global automatic information sharing network because tax evasion cannot be prevented until the last tax heaven has been shut down.



“Key message: we can set a global standard which provides benefits to all countries, not just one.”

ACHIM PROSS
Head of Division
OECD CTPA

Primarily, a legislation frame should be drawn. Namely, financial institutions should be subject to mandatory reporting. There is a need of a mechanism that allows to share data between tax administrations.

Another significant point is consistency. Consistency means compliance with laws, decrease in implementation costs and on the other hand provides a structure to tax administrations, taxpayers and financial institutions, which will allow them to implement the rules. At this stage, there should be legal and technical standards such as common reporting standard. While OECD and G20 countries were developing common standards, the target was the same: a common solution.

Putting the principle of proportionality into practice is also a significant subject. Proportionality has importance for public institutions concerning sovereignty rights. Especially when reporting responsibility is involved, risky areas and institutions should be determined and defined. Unless institutions inform countries about their financial risks, there should be a cost for them. Therefore, there should be proportionality between applied sanction and defaulted liability. Besides, another matter should be set out herein: data are very important for tax administrations and filtering them is necessary. Useful and relevant data should be sent to other tax administrations.

Another subject is data protection. Received data should not be misused and abused and they should be kept in a proper way. One of the most significant aspects about

exchange of information is ensuring privacy. Taxpayers take seriously the need for secrecy of tax information. It is important to monitor whether countries sharing automatically information apply privacy principles with regard to the secrecy of tax information.



“Secrecy of tax information is very significant for us. We do not want secrecy of tax information to be violated under any circumstance.”

KEITH LAWSON

Senior Counsel
ICI GLOBAL

Also it should be put special importance on capacity building. Capacity should be built by telling financial institutions what to do and what is expected from them.

For this reason, the work about legislation and regulatory structure should be carried out in close cooperation with businesses. When Common Reporting Standard will enter into force, everybody should know what must be done. For instance, when businesses start to apply the aforementioned standard, they have to make changes concerning computer programs and negotiate with customers and their legal advisors about their obligations. At this point, in time, communication and timetables gain extreme importance.

At the same time, tax administrations in each member country should develop capacity to deal with received information. In other words, every country should have an appropriate system in which to receive and use the information exchanged effectively.



Developing Countries and Automatic Exchange of Information: How to Benefit and Comply with the New Transparency Requirements on Bank Information

Session 8

Overview

This session focused on the situation of developing countries about exchange of information and common reporting, practices and what need to be done in these countries and possible challenges. The session highlighted that cooperation among states and MNCs should be ensured in order to have effective systems at international level.

Automatic Exchange of Information Practices in Developing Countries

Automatic exchange of information and transparency is quite an effective method in determining tax evasion and fighting illegal transactions. However, adopting this system requires making a commitment and meeting the conditions of the commitment.

In this session, practices carried out through the Global Forum on

Transparency and Exchange of Information for Tax Purposes have been highlighted and it was stated that significant works have been performed in one and half year since the G20 Leaders call in Petersburg to observe the commitment about automatic exchange of information. Under the direction of Global Forum works, most of developing countries understood the importance of the subject and they began to implement the current standards.

Global Forum works on automatic exchange of information, standardization and transparency and it can be joined by all interested countries. So far, the Forum, which is based on an equal footing participation, has 125 members and more than 90 have committed to AEOI.

Global Forum tries to create awareness for non-involved countries about the importance and usefulness of automatic exchange of information. By doing this, voluntary participation in this initiative by these countries is achieved.

Since it is expected that developing countries may incur difficulties in carrying out their commitment to establish automatic exchange of information in 2018. As far as possible, more countries should be tried to be incorporated into pilot projects which are supported by international institutions. Global Forum, World Bank and G20 support the projects in terms of technical capacity and human resources. IT and law departments are supported with the contribution of specialists in exchange of information.

Developing countries applying to participate in pilot projects are matched with certain OECD member countries. Currently, Colombia, Albania, Philippines, Morocco, Uganda and Pakistan have expressed interest in participating in



“To be successful in the exchange of information area, the first key point is the political will. The second is effective implementation.”

MONICA BHATIA

Head of Division
OECD CTPA

a pilot project that allows them to share experience and support implementation with OECD countries.

Global Forum works especially on supporting implementation, privacy and security of data, and monitoring commitments. If country partners do not trust the privacy ensured by the system, exchange of information cannot be performed. To fix this issue, works are conducted. Besides, it needs to be ensured that commitments are fulfilled in accordance with given commitments.

“Timing is very significant for the automatic exchange of information and therefore, developing countries should not begin implementation of exchange of information until they are ready for implementation.”

ALBERT BAKER
Global Tax Policy Leader
DELOITTE LLP



At the same time, Global Forum tries to perform capacity building projects for developing countries which enable them to benefit from each other's experience. This is a serious accomplishment achieved through mutual benefits and by sharing good practices.

Problems in AEOI and Actions to Be Taken

Problems concerning developing countries and automatic exchange of information were also discussed in this session. In order to ensure privacy and secrecy, it was emphasized that continuation of the process should be built on a robust basis and certain standards should be met. Indeed, if the standards are not fulfilled, then there could be several risks by using the information both in terms of finance and security. In addition, civil servants or politicians may use these information for different purposes if they are involved in cases of corruption.

Furthermore, timing is also a significant matter. It has been evaluated that it would be more useful for developing countries to start the implementation when they are ready.

Moreover, aspects related to the increase of operating, compliance and data collection costs as a consequence of the implementation turned out to be serious problems.

To be able to implement the automatic exchange of information standard, developing countries need to solve their capacity and resource problems. As these countries do not have sufficient technical infrastructure and qualified human resources, they should focus on strengthening their administrative and technical capacities. Global Forum provides technical support to these countries. Developing countries do not need only to establish a system to exchange information with other countries but also to learn how to use and analyse

the information received. Countries should have the capacity to access these information and use them when required. Countries implementing exchange of information mechanisms should make all required changes in their legal system according with the existing system. This is important to ensure the continuation of the system itself.

In order to be successful in the exchange of information area, political will is the first key point. Political will should commit to the exchange of information system. The second key point is the importance of the civil society. Civil soicety plays a big role in shaping political will and supporting tax reforms. Besides, it should be noticed that financial institutions are intehrated into the system via governments.

Panellists and Speakers

SESSION I

- Mr İsa Coşkun, *Acting Undersecretary*, Ministry of Finance, Turkey
- Mr Pascal Saint-Amans, *Director*, OECD CTPA
- Mr Richard Stern, *Lead Tax Officer*, World Bank Group
- Mr Robert Stack, *Deputy Assistant Secretary*, US Department of the Treasury, USA
- Mr Erdal Çalıkoğlu, *Partner/Country Tax Leader*, Ernst&Young
- Mr Sol Picciotto, *Emeritus Professor*, BEPS Monitoring Group

SESSION II

- Ms Zayda Manatta, *Advisor*, Ministry of Finance, Brazil
- Ms Caroline Malcolm, *Counsellor to the Director and Deputy Director*, OECD CTPA
- Mr Edouard Marcus, *Deputy Director*, General Directorate for Public Finance, France
- Mr Ahmet Kurt, *Head of Group*, Turkish Revenue Administration, Turkey
- Mr Paul Morton, *Head of Group Tax*, RELX Group PLC
- Mr Pierre Habbard, *Senior Advisor*, Trade Union Advisory OECD

SESSION III

- Prof. Dr. Hans van den Hurk, *Maastricht University*
- Mr Achim Pross, *Head of Division*, OECD CTPA
- Mr Brian Ernewein, *General Director*, Government of Canada- Finance, Canada
- Mr Mustafa Cemil Kara, *Head of Department*, Ministry of Finance, Turkey
- Mr William Morris, *Chair*, Taxation & Fiscal Policy Committee, BIAC
- Mr Sol Picciotto, *Emeritus Professor*, BEPS Monitoring Group

SESSION IV

- Mr İdris Şenyurt, *Head of Department*, Turkish Revenue Administration, Turkey
- Ms Marlies De Ruiter, *Head of Division*, OECD CTPA
- Ms Sunita Manik, *Group Executive*, South African Revenue Service, South Africa
- Mr James Karanja, *Principal Revenue Officer*, Kenya Revenue Authority, Kenya
- Mr Ramazan Biçer, *Transfer Pricing Senior Manager*, PWC, Turkey
- Mr Ian Brimicombe, *VP Corporate Finance*, Astra Zeneca

SESSION V

- Ms Burcu Aydın, *Deputy General Director*, Ministry of Finance, Turkey
- Mr David Bradbury, *Head of Division*, OECD CTPA
- Ms Fabrizia Lapecorella, *Director General*, Ministry of Economy and Finance, Italy
- Mr Michael Keen, *Deputy Director*, IMF Fiscal Affairs Department
- Mr Gaëtan Nicodeme, *Head of the Unit*, Directorate General of Taxation and Customs Union, EU
- Mr Jan Loeprick, *Researcher*, Vienna University of Economics and Business

SESSION VI

- Mr Tahir Erdem, *Head of Group*, Turkish Revenue Administration, Turkey
- Ms Grace Perez-Navarro, *Deputy Director*, OECD CTPA
- Mr Akhilesh Ranjan, *Joint Secretary*, Ministry of Finance, India
- Mr Ivar Nordland, *Deputy Permanent Secretary*, Ministry of Taxation, Denmark
- Mrs Manal Corwin, *Principal and National Leader International Tax*, KPMG – LLP, USA
- Mr Ian Young, *International Tax Manager*, ICAEW

SESSION VII

- Prof. Dr. Billur Yaltı, Koç University, Turkey
- Mr Achim Pross, *Head of Division*, OECD CTPA
- Mr Martin Kreienbaum, *Director General International Fiscal Affairs*, German Federal Ministry of Finance, Germany
- Mr Valère Moutarlier, *Director*, Directorate General for Taxation and Customs Unions, EU
- Mr Keith Lawson, *Senior Counsel*, Investment Company Institute&ICI Global
- Mr Francis Weyzig, *Senior Policy Advisor*, Oxfam Novib

SESSION VIII

- Mr Armando Lara Yaffar, *Director General International Tax Affairs*, Ministry of Finance and Public Credit, Mexico
- Ms Monica Bhatia, *Head of Division*, OECD CTPA
- Ms Maria Jose Garde, *Deputy Director General for International Taxation*, Ministry of Finance and Public Administration, Spain
- Ms Kim Sy Jacinto-Henares, *Commissioner*, Bureau of Internal Revenue, Philippines
- Mr Albert Baker, *Global Tax Policy Leader*, Deloitte LLP
- Mr Joseph Stead, *Senior Economic Justice Adviser*, Christian Aid

GUEST SPEAKERS

- His Excellency Mr Mehmet Şimşek, *Minister of Finance*, Turkey
- Mr Masatsugu Asakawa, *Chair of CFA* , OECD
- Mr Adnan Ertürk, *Commissioner*, Turkish Revenue Administration, Turkey
- Mr Hüseyin Karakum, *President*, Turkish Tax Inspection Board, Turkey
- Mr Erol Öz, *Director General*, Ministry of Finance, Turkey
- Mr Jian Fan, *Chief Economist*, State Administration of Taxation, China

THE SYMPOSIUM EVENT TEAM



UP(L/R) : Betül Aksakal, Aslı Çalışıcı, Sencer Turunç, İbrahim Barış Şaylan, Eren Elçi

DOWN(L/R) : Betül Göksu, Doğanay Göze Evcil, Mustafa Cemil Kara, Nuray Serdaroğlu Erbil, Fatma Erol